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White House Moves To Derail Push For Protectionist Legislation

Confronted by a Congress seemingly intent on passing some form of protectionist legislation to show that at least one branch of government is concerned about the runaway U.S. trade deficit, the White House finally went on the offensive this past weekend. The administration "will continue to resist protectionist measures that would only raise prices, lock out trade, and destroy the jobs and prosperity trade bring to all," President Reagan reiterated to domestic critics of his trade policy during a September 7 radio

This "leakage" of demand rivals the budget deficit as a leading cause of the recent economic downturn, maintains the report, and illustrates one of the consequences of the administration's failure to coordinate macroeconomic policies with industrial and trade strategies. The study exhorts Congress to formulate policies, institutions and information systems that will coordinate these elements and spur the appropriate mix of fiscal and monetary tactics as well.

In fact, the argument presented in the work may be identified as "new wave" economic theory -- a school of thought that defies conventional economic wisdom and supports restrictions on trade in some cases. Although the study does not explicitly advocate protectionist legislation as a solution to U.S. economic woes, the conclusions that market forces are out of kilter and that short-term phenomena like the overvalued dollar are causing businesses to make long-term decisions about moving abroad or cutting back production support the argument for government protection of companies buffeted by the "shock" of currency fluctuations.

The consequences of such government intervention in the marketplace were addressed in another study published in a recent issue of the Federal Reserve Bank of New York's Quarterly Review. Economist Susan Hickok found that ongoing protection of the U.S. clothing, automobile and sugar industries cost U.S. consumers \$14 billion last year, and pointed out that the amount is likely to increase in 1985 due to growing consumer demand and increased protection of the steel industry. If restrictions on food products, tobacco and motorcycles were included in her study, according to Ms. Hickok, the cost of protectionism for consumers would be even higher.

Sheri Hoptman

Japan's Exports To Middle East Oil-Exporting Countries

With the decline in oil prices and the Iran-Iraq war, Japan's exports to oil-exporting countries in the Middle East have contracted. Shipments to Japan's seven largest trading partners in the region fell from \$14.4 billion in 1982 to \$11.4 billion in 1984. The share of Japan's total exports going to these countries fell from 10.4 percent in 1982 to 5.8 percent during the first six months of this year as shipments declined 25.1 percent from their January-June 1984 level.

One result of this slide has been an increase in Japan's dependence on the U.S. market. The U.S. share of Japan's exports rose from 25.4 percent in 1981 to 36.7 percent during the first half of 1985. The United States accounted for about 118 percent of the increase in Japan's exports from 1981 to 1984. In other words, Japanese exports to this country rose by \$21.3 billion, while its exports to the rest of the world declined by \$2.6 billion. Such dependence on a single market poses considerable risk for Japan and is probably not sustainable in the long run.

Japan's Exports to Middle East Oil-Exporting Countries
and the United States

(in millions of dollars, f.o.b. value basis)

<u>Country</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>January- June 1985</u>
Iran	\$1,486	\$934	\$2,820	\$1,692	\$504
Iraq	3,026	2,755	631	806	526
Kuwait	1,648	1,790	1,7631	1,432	805
Oman	454	461	468	508	285
Qatar	268	347	233	175	91
Saudi Arabia	5,876	6,621	6,687	5,634	2,010
United Arab Emirates	1,494	1,493	1,357	1,126	545
Total	14,252	14,401	13,959	11,373	4,765
Percent of total exports	9.4%	10.4%	9.5%	6.7%	5.8%
United States	\$38,609	\$36,330	\$42,829	\$59,937	\$30,187
Percent of total exports	25.4%	26.2%	29.1%	35.2%	36.7%

Source: Japan Tariff Association

Randall S. Jones

Party Contributions Near Record

Despite the absence of national elections during the year, contributions to Japan's political parties reached a near record during fiscal 1984, according to records released September 2 by the Home Affairs Ministry. Total contributions were off from 1983, but at ¥116 billion (\$483 million) the total was second only to last year's ¥147.2 billion (\$613.3 million) record. All major political parties showed declines in contributions, although the Liberal Democratic Party suffered the largest drop, bringing in just over ¥13.2 billion (\$55 million), a drop of ¥8.7 billion from the previous year.

Japanese analysts are interpreting the significance of this downturn vis-a-vis its implications for the prime minister's challengers. This view holds that the contribution pattern reflects preparations for the "post-Nakasone" period, which will be directed by one of the party's new leaders. If that is the case, it could mean serious trouble for the Suzuki faction and its principal candidate for the LDP presidency -- former foreign minister Kiichi Miyazawa. This faction suffered the largest drop in contributions, which fell to less than half of the previous year's level. While the Nakasone faction faced a comparable decline, the Tanaka faction suffered least with a drop of only 14 percent. Significantly, groups associated with Finance Minister Noboru Takeshita, frequently mentioned as a Nakasone successor, fared well; their income remained virtually unchanged.

Major Donations to Political Parties*

(in millions of yen and millions of dollars)

	<u>FY 1983</u>	<u>FY 1984</u>
Japan Communist Party (JCP)	Y22,903.2	Y21,167.4 (\$88.2)
Liberal Democratic Party (LDP)	21,938.4	13,235.8 (55.1)
Komeito	10,179.2	9,250.3 (38.5)
Japan Socialist Party (DSP)	6,533.7	6,323.3 (26.3)
Democratic Socialist Party (DSP)	3,484.4	1,673.3 (7.0)
New Liberal Club (NLC)	567.2	420.3 (1.8)
Social Democratic Federation (Shaminren)	87.3	27.8 (0.1)

Top Recipients Among LDP Factions

(in millions of yen)

<u>Faction</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>
Nakasone	Y1,527.2	Y1,979.4	Y1,090.0
Tanaka	466.9	959.9	594.4
Fukuda	1,115.0	1,614.0	1,171.4
Suzuki	471.4	1,423.2	298.5
Komoto	1,228.1	1,548.8	902.8

*Totals for major donations to political parties only. Party totals do not include donations to individuals or party-affiliated organizations.

Source: Ministry of Home Affairs

The new leader theory is not totally validated by the contributions tally, but certainly the relative standing of the two leading candidates to succeed Mr. Nakasone -- Finance Minister Takeshita and Foreign Minister Shintaro Abe -- remain strong compared with that of the incumbent. Although the Tanaka faction now faces severe problems resulting from the continued illness of its leader, Kakuei Tanaka, the group's dominant role in Japanese politics is demonstrated by the fact that it faced only a marginal decline in income.

The "post-Nakasone" era may also be far away if the current prime minister has anything to say about it. Although the kitties for potential challengers have remained sound, it will take more than just money to unseat Mr. Nakasone, who still enjoys unprecedented popularity among voters and may

succeed in realigning cabinet and LDP party positions to reflect that popularity. Such a move would strengthen his position within the LDP and enhance his chances for a third term as party president and prime minister.

Michael W. Chinworth

JNR Reform Drive Thrown Into Full Throttle

Despite the fact that the Japanese National Railways reported a smaller net operating loss in fiscal year 1984 (April 1, 1984-March 31, 1985) than in the year earlier, Prime Minister Yasuhiro Nakasone is determined to privatize and reorganize the troubled public corporation (see JEI Report No. 26A, July 12, 1985). The JNR rehabilitation plan poses major challenges to politicians and labor leaders.

At the end of August, JNR officials reported that the transportation giant lost Y1,650.4 billion (\$6.9 billion) in fiscal 1984, Y10 billion (\$42 million) less than the previous year. Operating income rose Y90.9 billion (\$379 million) to Y3,389.8 billion (\$14.1 billion), while expenses totaled Y5,209.1 billion (\$21.7 billion), a gain of Y69 billion (\$288 million). Profits totaling Y34.5 billion (\$144 million) from operations of trunk lines combined with Y168.9 billion (\$704 million) in non-operating income (mostly from land sales) were primarily responsible for reducing the red ink. Despite fare increases, ridership increased 7.1 percent, also contributing to the contraction. Losses attributable to what JNR calls inefficient management practices were cut Y66 billion (\$275 million) to Y576.8 billion (\$2.4 billion). Personnel as well as materials costs also fell. On the negative side, losses by local rail and bus service increased Y33.5 billion (\$140 million) to Y395.9 billion (\$1.6 billion). JNR's accumulated deficit totaled almost Y12.3 trillion (\$51 billion), pushing total long-term debt up to just over Y21.8 trillion (\$90.9 billion).

To plug this drain on the government's treasury, a committee appointed by the prime minister to map out JNR's reform recommended splitting JNR into at least 24 companies: one or more Shinkansen (bullet train) firms, one or more freight services, six local passenger service operations, 13 local bus companies, a telecommunications business and a research organization. Citing the influence of the Diet on route and personnel decisions as a major source of inefficiency in JNR operations, the recommendations call for all of the new companies to be privately managed.

Local rail passenger services would be divided among Higashi Nihon Kaisha (eastern Honshu), Tokai Kaisha (central Honshu), Nishi Nihon Kaisha (western Honshu), and one company each for the smaller islands of Hokkaido, Kyushu and Shikoku. A separate firm would own all the bullet train lines, which would be leased to the six local firms. JNR's cargo operations would be taken over by one company, its budding telecommunications operations by another, and its two research institutes would be merged into a third firm. Local bus lines would initially be operated by the six regional companies but eventually would be spun off into 13 independent operations. Any remaining operations would be handled by a new firm, dubbed the "old JNR."